

## Message Text

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ACTION EUR-12

INFO OCT-01 EA-07 ISO-00 CIAE-00 DODE-00 PM-04 H-01 INR-07  
L-03 NSAE-00 NSC-05 PA-01 PRS-01 SP-02 SS-15 USIA-06  
EB-07 COME-00 TRSE-00 OMB-01 FRB-03 XMB-02 /078 W  
-----061710Z 093615 /43

R 061633Z JAN 77

FM AMEMBASSY LONDON  
TO SECSTATE WASHDC 9203  
INFO AMEMBASSY ANKARA  
AMEMBASSY BERN  
AMEMBASSY BONN  
AMEMBASSY BRUSSELS  
AMEMBASSY CANBERRA  
AMEMBASSY COPENHAGEN  
AMEMBASSY DUBLIN  
AMEMBASSY HELSINKI  
AMEMBASSY LISBON  
AMEMBASSY LUXEMBOURG  
AMEMBASSY MADRID  
AMEMBASSY OSLO  
AMEMBASSY OTTAWA  
AMEMBASSY PARIS  
AMEMBASSY REYKJAVIK  
AMEMBASSY ROME  
AMEMBASSY STOCKHOLM  
AMEMBASSY THE HAGUE  
AMEMBASSY TOKYO  
AMEMBASSY VIENNA  
AMEMBASSY WELLINGTON  
USMISSION EC BRUSSELS  
USMISSION OECD PARIS  
USMISSION NATO BRUSSELS  
AMCONSUL BELFAST  
AMCONSUL EDINBURGH

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E. O. 11652:GDS  
TAGS: PGOV, PINT, EGEN, PFOR, UK, EFIN  
SUBJECT: DECEMBER IN BRITAIN: A LOOK BACK, A LOOK AHEAD  
  
REF: LONDON 16234

1. THERE WERE NOT SO MANY HO-HO-HOS IN BRITAIN THIS CHRISTMAS SEASON. 1976 WAS A DISMAL YEAR HERE, IN MANY WAYS THE WORST SINCE THE WAR.

2. THE MOST DAMAGING DROUGHT FOR 500 YEARS BURNED THE COUNTRY BROWN. JUNE WAS THE HOTTEST MONTH THIS CENTURY. THE POUND PLUMMETED TO \$1.56. WILSON RESIGNED, CALLAGHAN HAD TO COPE. A TROTSKYITE WAS NAMED THE LABOR PARTY'S YOUTH ORGANIZER. BRITISH MERCENARIES KILLED EACH OTHER IN ANGOLA. RABIES THREATENED UK PORTS. PARLIAMENT AND PARTIES DIVIDED. SO DID PRINCESS MARGARET AND LORD SNOWDEN. ENGLAND LOST THE CRICKET TEST WITH T/H WEST INDIES AND THE WORLD CUP QUALIFYING MATCH IN ROME. BRITAIN LOST THE COD WAR. BOMBS EXPLODED IN LONDON, 296 DIED IN NORTHERN IRELAND'S CIVIL WAR, THE BRITISH AMBASSADOR WAS MURDERED IN DUBLIN, AND THE EUROPEAN COMMISSION ON HUMAN RIGHTS FOUND BRITAIN GUILTY OF TORTURE OF INTERNEES IN NI IN 1971. HMG BORROWED A MASSIVE \$6.8 BILLION ABROAD. THE TATE GALLERY EXHIBITED 120 BRICKS IN A PILE. AN AMERICAN OIL COMPANY BOUGHT THE OBSERVER. THE DEVOLUTION DEBATE BEGAN BITTERLY AT WESTMINSTER. SOLZHENITSYN IN LONDON FORECAST THE "SUDDEN AND IMMINENT FALL OF THE WEST." UNEMPLOYMENT REACHED A MILLION AND A HALF, INFLATION FELL TO 15 PERCENT. DISMAL. DISMAL. DISMAL.

3. DECEMBER WAS NOT ANY WORSE. AFTER PROTRACTED AND PAINFUL NEGOTIATIONS WITH THE IMF, CHANCELLOR HEALEY PRODUCED AN ECONOMIC PACKAGE TAILORED TO REDUCE GOVERN-CONFIDENTIAL

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MENT BORROWING BY ABOUT 3.5 BILLION POUNDS OVER THE NEXT TWO FISCAL YEARS. MOST OF THE REDUCTION WILL BE ACHIEVED BY SPENDING CUTS, INCLUDING 230 MILLION POUNDS IN DEFENSE. THE REST WILL COME FROM EXCISE TAX INCREASES. IN RETURN, THE IMF HAS APPROVED BRITAIN'S REQUEST FOR A STANDBY DRAWING ON ITS REMAINING \$3.9 BILLION IN CREDIT FACILITIES. THE MONEY WILL BE HANDED OVER IN STAGES PROVIDED THAT BRITAIN ACHIEVES AGREED DOMESTIC CREDIT EXPANSION TARGETS. THE PRESS CALLED THE HEALEY PACKAGE BOTH UNIMAGINATIVE AND INADEQUATE AND THE CHANCELLOR THE MINI-MENACE.

4. THE COMING CUTS IN PUBLIC SPENDING FOLLOW THE PATTERN ESTABLISHED DURING A SIMILAR EXERCISE IN JULY. THEY ARE SCATTERED AMONG THE VARIOUS SPENDING PROGRAMS AND MEANT TO MINIMIZE JOB LOSSES IN THE PUBLIC SECTOR. SOME OBSERVERS HAVE CONCLUDED THAT THESE CUTS MUST LEAD TO REDUCTIONS IN PRIVATE SECTOR EMPLOYMENT, PARTICULARLY IN THE CONSTRUCTION INDUSTRY, WHICH ALREADY BEARS A

DISPROPORTIONATE SHARE OF EXISTING UNEMPLOYMENT. EVEN  
SO, THE IMF MONITORING, THE MONETARY AND FISCAL TARGETS  
OF THE PACKAGE, AND THE LIKELIHOOD OF A BALANCE OF  
PAYMENTS SURPLUS IN 1978 HAVE HELPED TO RESTORE SOME  
CONFIDENCE IN FOREIGN EXCHANGE MARKETS.

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5. NONETHELESS, AFTER THE DECEMBER PACKAGE, FEW BRITONS WILL REACH THE END OF 1977 AS WELL OFF IN REAL TERMS AS THEY ARE NOW. CONTINUING WAGE RESTRAINT PLUS INFLATION EXPECTED TO AVERAGE 12-15 PERCENT OVER 1977 WILL SLICE PRE-TAX INCOME. WITH REAL TAKE-HOME PAY DROPPING BY POSSIBLY FIVE TO SIX PERCENT, A FALL IN CONSUMER SPENDING IS ALL BUT INEVITABLE. GOVERNMENT SPENDING WILL BE LOWER IN 1977 WITH THE REDUCTIONS CONFINED LARGELY TO CAPITAL SPENDING. OVERALL INVESTMENT WILL BE SLIGHTLY REDUCED IN 1977, INFLUENCED BY LOWER OUTLAYS ON HOUSING, THE NATIONALIZED INDUSTRIES, AND THE PEAKING, AT LEAST FOR THE MOMENT, OF NORTH SEA DEVELOPMENT SPENDING.

6. THE LIKELY RISE IN MANUFACTURING INVESTMENT WILL NOT OFFSET THESE DECLINES. THE ONLY BUOYANT ELEMENTS IN THE PATTERN ARE EXPECTED TO BE NET EXPORTS AND INVENTORY ACCUMULATION. LOWER LEVELS OF IMPORTS STEMMING FROM WEAK DOMESTIC DEMAND AND RAPIDLY INCREASING NORTH SEA OIL OUTPUT COUPLED WITH RISING EXPORTS IN THE WAKE OF THE LARGE DEPRECIATION OF STERLING SHOULD PRODUCE A MARGIN OF NET EXPORTS CONSISTENT WITH OVERALL ECONOMIC -  
GROWTH OF ONE TO TWO PERCENT IN 1977.

7. GIVEN SUCH SLUGGISHNESS, IT IS UNLIKELY THAT ANY PROGRESS WILL BE POSSIBLE IN REDUCING UNEMPLOYMENT BELOW ITS CURRENT LEVEL (1.3 MILLION - 5.5 PERCENT). IN FACT, JOBLESS TOTALS COULD GO AS HIGH AS 1.7 MILLION BY THE END OF THE YEAR.

8. IN SUM, 1977 WILL BE A FURTHER TOUGH YEAR FOR BRITAIN, ITS ECONOMY AND ITS CITIZENS. RISING UNEMPLOYMENT, CONTINUED HIGH INFLATION AND LITTLE GROWTH  
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WILL PERSIST. AND ALTHOUGH THESE PROBLEMS WILL BE SOMEWHAT SOFTENED IN THE COURSE OF THE YEAR BY THE IMPACT ON THE BALANCE OF PAYMENTS OF LARGE FLOWS OF NORTH SEA OIL, THERE ARE STILL ONLY THE FAINTEST SIGNS

HERE THAT THE MUCH DISCUSSED SHIFT OF RESOURCES FROM  
CURRENT CONSUMPTION TO INVESTMENT AND EXPORT ON WHICH  
THE UK'S ECONOMIC REHABILITATION DEPENDS WILL ACTUALLY  
TAKE PLACE.

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## Message Attributes

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**Capture Date:** 01-Jan-1994 12:00:00 am  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
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**Copy:** SINGLE  
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**Decaption Note:**  
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**Disposition Approved on Date:**  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 22 May 2009  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
**Disposition Remarks:**  
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**Document Source:** CORE  
**Document Unique ID:** 00  
**Drafter:** n/a  
**Enclosure:** n/a  
**Executive Order:** GS  
**Errors:** N/A  
**Expiration:**  
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**Original Handling Restrictions:** n/a  
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**Previous Handling Restrictions:** n/a  
**Reference:** 77 LONDON 16234  
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**Review Event:**  
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**Review Media Identifier:**  
**Review Release Date:** n/a  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**SAS ID:** 3653223  
**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** DECEMBER IN BRITAIN: A LOOK BACK, A LOOK AHEAD  
**TAGS:** PGOV, PINT, EGEN, PFOR, EFIN, UK  
**To:** STATE  
**Type:** TE  
**vdkgvwkey:** odbc://SAS/SAS.dbo.SAS\_Docs/d873b8dc-c288-dd11-92da-001cc4696bcc  
**Review Markings:**  
Margaret P. Grafeld  
Declassified/Released  
US Department of State  
EO Systematic Review  
22 May 2009  
**Markings:** Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009